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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. GNR-E-02-01

DIRECT TESTIMONY OF LARRY CROWLEY  
FOR PLUMMER FOREST PRODUCTS – POTLATCH CORPORATION

1 Q. Please state your name and business address.

2 A. My name is Larry Crowley and my business address is 5549 South Cliffsedge  
3 Avenue, Boise, Idaho 83716.

4 Q. By whom are you employed and in what capacity?

5 A. I am the founder and Director of The Energy Strategies Institute, Inc., a consulting  
6 company consisting of a network of experienced professionals with diverse experience  
7 and interests, specializing in energy and utility matters. The Institute is dedicated to  
8 developing and implementing practical solutions for energy service providers and  
9 customers. The Institute provides regulatory and litigation support, industry restructuring  
10 support including economic and financial analysis, and business and organizational  
11 development analysis and implementation support. The Institute also offers assistance  
12 and facilitation with energy and utility strategic planning initiatives, resource planning  
13 studies, and strategic, financial and feasibility studies for mergers and acquisitions and  
14 new business development. Regulatory services include costing/pricing studies,  
15 preparation of direct testimony and testifying in support of the studies provided. The  
16 Institute offers regulatory expertise with the preparation of exhibits and testimony for  
17 jurisdictional separation and revenue requirement studies, class cost of service studies,  
18 unbundled cost studies, and rate design studies. Major clients include The Washington  
19 Group International, Boise, Idaho; Wisconsin Electric Power Company, Milwaukee,  
20 Wisconsin; The US Department of Energy, Office of Renewable Energy and Energy  
21 Efficiency, Washington, D.C.; and The International Energy Agency, Paris, France.

22 Q. Please describe your educational background and professional experience.

23 A. I have a Bachelor of Science degree in Economics from the University of  
24 Maryland. My professional experience consists of over 30 years of senior-level

1 positions with a number of electric or dual fuel utilities. I have worked as Senior  
2 Manager of Strategic Planning, Manager of Power Management and Manager of  
3 Rates and Regulatory Affairs at Idaho Power Company. In addition, I was project  
4 coordinator for all regulatory filings for Wisconsin Electric Power Company  
5 located in Milwaukee, Wisconsin. My specific regulatory responsibilities have  
6 included the development of jurisdictional and class cost of service studies, rate  
7 design and analysis, rate case planning and coordination, wholesale power  
8 planning, contracting and administration and developing load research programs.  
9 During the past 25 years I have testified before the Idaho Public Utilities  
10 Commission, the Oregon Public Utilities Commission, the Nevada Public Service  
11 Commission, the Colorado Public Utilities Commission, the Wisconsin Public  
12 Utilities Commission, the Michigan Public Service Commission and the Federal  
13 Energy Regulatory Commission.

14 Q. On whose behalf are you testifying in this proceeding?

15 A. I am testifying on behalf of Plummer Forest Products and the Potlatch  
16 Corporation.

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to respond to the Commission's Order No 29069  
19 regarding "the reasonableness of the actual numbers comprising the avoided cost  
20 formula." Specifically, I have been asked to review and make a recommendation  
21 regarding the reasonableness of the "first deficit year" used in the formula for  
22 calculation of Avista's proposed avoided cost rates.

1 Q. Please describe the importance of the “first resource deficit year” (“FDY”)  
2 component in the calculation of avoided cost rates?

3 A. Identification of the first resource deficit year is the one of the most important  
4 factors in calculating a utility’s avoided costs and thereby determining the  
5 appropriate rate a QF will receive including credit for avoided capacity costs. For  
6 example, if a utility’s first deficit year is projected to occur ten years in the future,  
7 a ten year QF contract executed ten years prior to the first deficit year would  
8 receive rates that recover little more than avoided fuel and other variable costs.  
9 This would preclude the development of feasible QF projects due to the lack of  
10 the ability to recover fixed costs, including financing costs, in the first years of  
11 operation of the QF project.

12 Q. What is the FDY year assumption contained in Avista’s published rates for Non-  
13 Fueled Projects?

14 A. Avista’s rates are based on an assumed FDY of 2010.

15 Q. What impact does this FDY assumption have on the calculation of Avista’s  
16 avoided cost rates?

17 A. The first deficit year assumption has a particularly significant impact on QF  
18 contracts for ten years or less. For these contracts, Avista’s avoided cost rates are  
19 uniformly 40 percent less than the published rates for the other two Idaho utilities.  
20 Even in the case of twenty year levelized contracts, Avista’s rates are roughly 25  
21 percent below the rates of Idaho Power and PacifiCorp.

22 Q. When was the assumed first deficit year of 2010 established?

1 A. It was established by the Commission in 1996 in Case No. WWP-E-92-2. That  
2 case involved review and acceptance of Avista's (then Washington Water Power  
3 Company) 1995 Integrated Resource Plan. In Order No. 26699 the Commission  
4 stated:

5 According to the Company's medium growth electric forecast in Case No.  
6 WWP-E-95-2, Water Power will not need additional energy resources  
7 until the year 2010 (Executive Summary page 10; Appendix F pages 41,  
8 47). The Commission notes that this calculation is generally consistent  
9 with the Exhibit 19 first year deficit calculation and testimony of Water  
10 Power witness H. Douglas Young in Case No. WWP-E-93-10. We find  
11 the change in first deficit year to be reasonable and authorize its use for  
12 avoided cost purposes.

13  
14 Attached as Exhibit 501 is the three-page Appendix F referenced above.

15 Q. Is Avista's projected 2010 first deficit year still accurate?

16 A. I assume the projection was realistic when it was made in 1995, but it is very clear  
17 it is no longer accurate.

18 Q. What is your basis for this conclusion?

19 A. Avista's own documents and actions demonstrate that the 2010 first deficit year  
20 estimate is no longer valid.

21 Q. What documents are you referring to?

22 A. I am referring to Avista's "2001 Electric Integrated Resource Plan" filing made in  
23 May of 2001.

24 Q. What does the 2001 IRP indicate with respect to first deficit year?

25 A. It shows that Avista faced substantial deficits, both in capacity and energy in the  
26 year 2000. Attached as Exhibit as Exhibit 502, is the summary of Requirements  
27 and Resources in the 2001 IRP. It is very similar in format to the 1996 Exhibit F,

1 Exhibit 501, referenced above. It shows a year 2000 peak deficiency of 394 MW  
2 and an average energy deficiency of 260 AMW.

3 Q. Was Avista's published avoided cost rate ever adjusted to correct the first deficit  
4 year from 2010 to 2000?

5 A. The 2001 IRP states in part:

6 With the publication of the 2001 IRP, Avista will file revised avoided  
7 costs to match the parameters in the IRP, including information received  
8 from the 2000 RFP. Avista has 90 days after the IRP filing to file revised  
9 numbers in Washington. The company will also file at about the same  
10 time updated avoided cost numbers in Idaho. This will allow the company  
11 to remain in compliance with the state's requirements in their management  
12 of the PURPA legislation. (Avista 2001 IRP, page H-11).

13  
14 As yet Avista has not updated its avoided cost rate to include the correct first  
15 resource deficit year as it indicated it would in its 2001 IRP.

16 Q. You stated earlier that Avista's actions also demonstrate that the 2010 first deficit  
17 year is invalid. What is your basis for this conclusion?

18 A. Avista has been building, and continues to build, substantial additional generating  
19 capacity in an attempt to alleviate the resource deficiencies identified in the 2001  
20 IRP. According to its earnings report for the second quarter of 2001, Avista was  
21 constructing the 280 megawatt Coyote Springs 2 natural gas generation project  
22 near Boardman, plus several small generation projects with a total capacity of 63  
23 megawatts

24 Q. Will these construction projects eliminate the resource deficiency identified in the  
25 2001 IRP?

26 A. No. My understanding is that Avista has sold, or is engaged in selling, one half of  
27 its Coyote Springs generating project. Correcting the 2001 IRP for this

1 subsequent development, shows Avista with immediate peak and average  
2 resource deficiencies.

3 Q. What is your recommendation for correcting this situation?

4 A. In accordance with the methodology established in Order No. 26699, which  
5 determines the first deficit year based on the utility's most recent IRP, the first  
6 deficit year for Avista should be set at the year 2000.

7 Q. Have you reviewed the calculation of Avista's avoided cost rates for non-fueled  
8 projects based on an assumed first deficit year of 2000?

9 A. Yes. Attached as Exhibit 503 is a schedule of rates incorporating the year 2000  
10 assumption.

11 Q. Does correcting the assumption with respect to first deficit year have a material  
12 impact on avoided cost rates?

13 A. Yes. Exhibit 504 sets forth the calculation of avoided costs using a first deficit  
14 year of 2010. When compared to Exhibit 503 it can be seen that using the correct  
15 deficit year produces a rate of 70.49 mills/kWh for a 20 year contract while using  
16 the current, incorrect, deficit year produces a rate of 52.90 mills/kWh for a  
17 contract of the same length.

18 Q. Do these rates shown in Exhibit 503 appear to be reasonable?

19 A. Yes. Attached as Exhibit 505 are the comparable rate schedules for Idaho Power  
20 Company and PacifiCorp. These companies use a first deficit year of 1998 and  
21 1999 respectively. Employing this assumption for Avista brings Avista's rates  
22 very much in line with the other Idaho utilities.

1 Q. Finally, in your opinion, is determination of a first deficit year a useful component  
2 of avoided cost calculation.

3 A. The primary purpose of this testimony is to show the correct Avista QF rate using  
4 the current methodology and an appropriate first deficit year. I understand from  
5 informal discussions, however, that other parties may offer criticisms of the first  
6 deficit year component and suggestions for improvements. Given the fact that  
7 Avista's 1995 projected first deficit year obviously produced erroneous rates for  
8 at least the last two years, I can understand why other parties would argue for the  
9 elimination of this component of the methodology. I may comment on these  
10 suggestions in my rebuttal testimony, if appropriate.

11 Q. Does that conclude your testimony?

12 A. Yes it does.